

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR FISCAL YEAR (FY) 2007

February 12, 2008



January 16, 2009

Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: Annual Report on Internal Audit Office Operations for Fiscal Year (FY) 2007

This report is to provide the members of the Audit & Finance Committee and other members of the City Council with information on the activities of the Internal Audit Office for year 2007. The attached information describes audits and other projects and activities completed or initiated during year 2007.

Please review the report. Should you have questions or comments, feel free to contact me.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

c: Audit and Finance Committee
 City Council Members
 Clerk of Council

INTERNAL AUDIT OFFICE
ANNUAL REPORT

TABLE OF CONTENTS

PAGE

INTRODUCTION	I
PART I: AUDIT ADMINISTRATION	I
A. AUDITS COMPLETED	2
B. AUDITS/PROJECTS IN PROCESS	2
C. ANALYSIS OF REPORTS ISSUED (1998 - 2007)	3
D. FOLLOW-UP ADMINISTRATION	4
E. OTHER PROJECTS	4
PART II: NON-AUDIT ACTIVITIES	5
A. FRAUD HOTLINE PROCESSING	5
B. PROFESSIONAL DEVELOPMENT	6
PART III: CONCLUSION	6

ANNUAL REPORT ON OPERATIONS OF THE INTERNAL AUDIT OFFICE FOR FISCAL YEAR (FY) 2007

INTRODUCTION

The mission of the Office of Internal Audit is to provide independent and objective reviews and assessments of the City's activities, operations, financial systems, and internal controls.

The Office of Internal Audit seeks to assist management in:

- carrying out continuous quality improvement of department operations and programs;
- promoting operational effectiveness and efficiency;
- ensuring that adequate safeguards exist over City assets;
- ensuring adherence to City policies and procedures; and,
- investigating fraud, waste, and abuse.

The Office of Internal Audit accomplishes its mission by carrying out an annual audit plan that utilizes a combination of rotation and risk analysis to review critical areas of operations. To ensure the appropriate level of independence and objectivity, the City Internal Auditor reports to the Audit & Finance Sub-Committee of the City Council.

The Internal Audit Office FY 2007 Annual Report presents our service efforts and accomplishments. The Annual Report contains the following three parts:

- Part I: Audit Administration describes progress on audits performed by the Internal Audit Office.
- Part II: Non-Audit Activities provides information related to the Fraud Hotline, Special Projects, and Professional Development.
- Part III: Provides a brief conclusion highlighting a few of the future short and long-term projects currently under development.

PART I: AUDIT ADMINISTRATION

The work performed by the Internal Audit Office is guided by the annual audit plan. The plan outlines audit projects for the fiscal year. The following summarizes the current status (completed or in process) of each audit and project outlined in the plan, along with the budgeted versus actual hours.

ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

February 12, 2008

Page 2

A. AUDITS COMPLETED

		<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>
AA 2007-01:	Indication of Inadequate Internal Controls Associated With Gasoline Usage	*	*	*
AA 2007-02:	Indication of Inadequate Internal Controls Regarding Retirement Data	*	54	*
SR 906007-03:	Special Report: Disclosure Statement Reporting for Board and Commission Members	80	100	(20)
AA 2007-04:	Paint Your Heart Out	*	*	*
AA 2007-05:	Fixed Assets at the Convention Center (Hilton) Hotel	*	*	*
IAR 140107-06:	Audit of Regional Airport – Parking Contract	340	475	(135)
SR 650007-07:	Special Report: City Courts – Computer Controls	*	433	*
SR 600007-08:	Shreveport Redevelopment Agency	*	*	*
AA 2007-09:	Surplus Vehicle Consignment Auction Contract	*	74	*
IAR 130107-10:	Community Development, Administration	470	447	23
IAR 210107-11:	North Shreveport Development Corporation	420	1526	(1106)
IAR 220807-12:	Management Letter Follow-Up	315	70	245
IAR 220707-13(a):	2007 Annual Audit Follow-Up	500	200	300
IAR 220707-13(a):	Annual Status Report of City Operations	70	20	50

B. AUDITS/PROJECTS IN PROCESS

	<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>	<u>EST. % OF COMPLETION</u>
SPAR-Recreation	410	954	(544)	95%
Shreve Memorial Library	550	1382	(832)	55%
Shreveport Home Mortgage Authority	665	685	(20)	40%
DOS – Streets and Drainage	472	800	(328)	90%

ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

February 12, 2008

Page 3

	<u>BUDGETED HOURS</u>	<u>ACTUAL HOURS</u>	<u>(OVER) UNDER</u>	<u>EST. % OF COMPLETION</u>
Miscellaneous – DOS - Customer Service	*	*	*	95%
Miscellaneous – DOS – Shreveport Water Assistance Program	*	*	*	95%
Miscellaneous – Finance – Cashiering Physical Security Controls	*	*	*	95%
Fraud Hotline 01-001	*	120	*	95%

* Miscellaneous Audit/Unscheduled projects/Fraud Hotline.

C. ANALYSIS OF REPORTS ISSUED (1998 – 2007)

For 2007, the Internal Audit Office estimated that 20 projects would be completed for the year. Thirteen projects were completed in 2007 as shown in the chart below. The chart also shows an analysis of reports issued over the past ten years.

YEAR	(Jan-Mar) Qtr 1	(Apr-Jun) Qtr 2	(Jul-Sep) Qtr 3	(Oct-Dec) Qtr 4	Total
1998	0	1	3	10	14
1999	2	3	1	11	17
2000	3	1	2	10	16
2001	1	4	2	8	15
2002	1	1	2	10	14
2003	0	3	3	6	12
2004	1	1	1	9	12
2005	3	5	2	4	14
2006	1	3	1	9	14
2007	1	3	1	8	13

ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

February 12, 2008

Page 4

D. FOLLOW-UP ADMINISTRATION

A follow-up report was performed at 2007 year-end to determine the status of management's actions on outstanding recommendations made by the Internal Audit Office. This follow-up encompassed outstanding recommendations from 1991 - 2006. Management provided information on the current status of implementation for any outstanding recommendations.

The Internal Audit Office reviewed this information and conducted necessary procedures to determine that the information provided by management was complete, accurate, and reliable.

Results of our 2007 Annual Follow-Up review indicated that management had either completed or partially completed 85% of the recommendations made during the period December 31, 1991, through December 31, 2006. We believe that this implementation rate is indicative of management's concurrence with the recommendations, as well as, the effectiveness of the Internal Audit Office in accomplishing its mission as outlined in the City Charter, Section 4.25.

Among the recommendations made:

- 84% of the outstanding recommendations were determined to be complete because the action management had taken was sufficient to mitigate the control deficiencies.
- 1% of the outstanding recommendations were determined to be partially complete because the action management had taken was not sufficient to mitigate the control deficiencies.
- 2% of the outstanding recommendations were determined to have no progress because management had taken no action to mitigate the control deficiencies.
- 10% of the outstanding recommendations were determined to be no longer applicable due to either organizational, process, or procedural changes.
- 3% of the recommendations were removed/archived due to the age of the recommendation or the feasibility of implementing the recommendation.

[Status Note: Please refer to IAR 220707-13: 2007 Annual Audit Follow-Up for the detailed report on the outstanding audit recommendations.]

E. OTHER PROJECTS

The following summarizes special projects performed by the Internal Audit Office for 2007.

Facilitation of External Audit Selection Process

Assisted the Audit and Finance Committee in the external audit selection process by updating the Request for Proposal(RFP) and processing all necessary RFP paperwork, calling potential proposers to make them aware of the RFP, answering questions asked by proposers and the A&F

ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

February 12, 2008

Page 5

Committee during the RFP period, and submitting information for the external audit resolution to recommend the successor external auditors for 2007.

Various Miscellaneous Requests

At the request of the City Council or Administration, the Internal Audit Office completed several miscellaneous projects including: completed Annual Report of Internal Audit Office Operations; provided details on the Economic Development Audit; provided details on the 2006 Annual Follow-Up for Community Development; completed annual fixed assets inventory; researched details on additional external auditor billings; and recommended findings to remove from the Annual Follow-Up.

Disclosure Reporting Administration

During October 2006, the City Council enacted Section 2-51 of the Code of Ordinances. This ordinance requires that any member of any board, commission or other body appointed by the Mayor and confirmed by the City Council, their immediate family members, and any legal entity in which they have a substantial economic interest must file an acknowledgement, and also, initial and annual disclosure statements with the City Internal Auditor if they derive any thing of economic value from a contract with the City of Shreveport. The Internal Audit Office mailed the disclosure reporting form to 123 board members requesting that they complete the information as necessary for year 2007. During the first quarter of 2008, the City Internal Auditor will provide the City Council with a report on the activities of the disclosure statement reporting.

Updating Internal Audit Office Policies and Procedures Manual

The last complete update of office policies and procedures occurred approximately 12 years ago. Some work on this project was completed during 2007 and work on the updated manual will continue during 2008.

External Audit Assistance

The Internal Audit Office provided assistance to the external auditors in conducting an audit of the City's federal programs.

PART II: NON-AUDIT ACTIVITIES

A. FRAUD HOTLINE PROCESSING

The Internal Audit Office maintains a fraud hotline to report allegations of fraud, waste, and abuse. Hotline allegations may be made by phone, email, or office visit. During the reporting period, nine allegations of possible fraud, waste, and abuse were reported on the **Fraud Hotline**. Work on eight allegations was completed. One allegation remains open. Four allegations received resulted in report written addressing weak internal controls; however, all allegations received may not result in a formal investigation and report.

[Status Note: Please refer to the Fraud Hotline Activity Report for January 1 through December 31, 2007, dated January 31, 2008, for a detailed explanation of the status of the fraud hotline allegations.]

ANNUAL REPORT – OPERATIONS OF THE INTERNAL AUDIT

February 12, 2008

Page 6

B. PROFESSIONAL DEVELOPMENT

The current staff of the Internal Audit Office provides the City of Shreveport with experienced professionals who are knowledgeable in governmental operations. There are seven professional auditors and one administrative assistant. Professional degrees and certifications held by the staff include: eight Bachelors degrees, four Masters degrees, three Certified Internal Auditors (CIA), one Certified Public Accountant (CPA), three Certified Fraud Examiners (CFE), one Certified Information Systems Auditor (CISA), and three Certified Governmental Financial Managers (CGFM). Staff members acquire continuing training and education in order to ensure that they maintain proficiency and competency in the internal auditing field. Audit staff also maintain membership in several professional associations and serve as elected officers (President and Secretary/Treasurer) in the local Certified Fraud Examiners chapter. Current affiliations include the National Association of Local Government Auditors, Louisiana Society of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Government Finance Officers Association, and the Association of Government Accountants.

PART III: CONCLUSION

We hope this FY 2007 Annual Report has provided helpful information to those interested in gaining an understanding of the performance of the Internal Audit Office. During FY 2008, the Internal Audit Office will place emphasis on increasing audit coverage and further utilizing automated audit tools to assist in audit analysis and testing, planning, and administration of audit work and special projects. Accomplishment of these goals should enable us to assist management in ensuring greater efficiency, effectiveness, and accountability over city operations.